

**Meeting:** EXECUTIVE

**Agenda Item:**

Portfolio Area: Resources



**Date:** 12 July 2022

## 4th QUARTER MONITORING REPORT GENERAL FUND AND HOUSING REVENUE ACCOUNT

### KEY DECISION

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### 1. PURPOSE

- 1.1 To update Members on the 2021/22 outturn positions for the General Fund (GF) and Housing Revenue Account (HRA) and to seek approval for revisions to 2022/23 revenue budgets. The revenue spend included within this report are subject to completion of the 2021/22 audit of accounts.
- 1.2 To update Members on the Council's reserves and balances available to support revenue expenditure.

### 2. RECOMMENDATIONS

#### 2.1 General Fund

- 2.1.1 That the 2021/22 actual General Fund net expenditure of £9.692Million be noted, subject to the 2021/22 audit of the Statement of Accounts.
- 2.1.2 That the 2021/22 actual core resources of £10.198Million be noted, subject to the 2021/22 audit of the Statement of Accounts (paragraph 4.7).
- 2.1.3 That carry forward requests totalling £653,660 be approved for the General Fund (paragraph 4.6.1).
- 2.1.4 That the Transfer from reserves of £1.328Million be approved for the General Fund (paragraph 4.10.2).
- 2.1.5 That the changes to the 2022/23 General Fund budget savings totalling £180,840 be approved for the General Fund (section 4.9).

2.1.6 That Members note the inflationary pressures outlined in paragraph 4.9.4.

## 2.2 Housing Revenue Account

2.2.1 That the 2021/22 actual in year HRA surplus of £2.813Million be noted, subject to the audit of the Statement of Accounts.

2.2.2 That new carry forward requests totalling £972,910 be approved for the HRA (paragraph 4.15.1).

2.2.3 That the Transfer to reserves of £165K be approved for the HRA (paragraph 4.17.2).

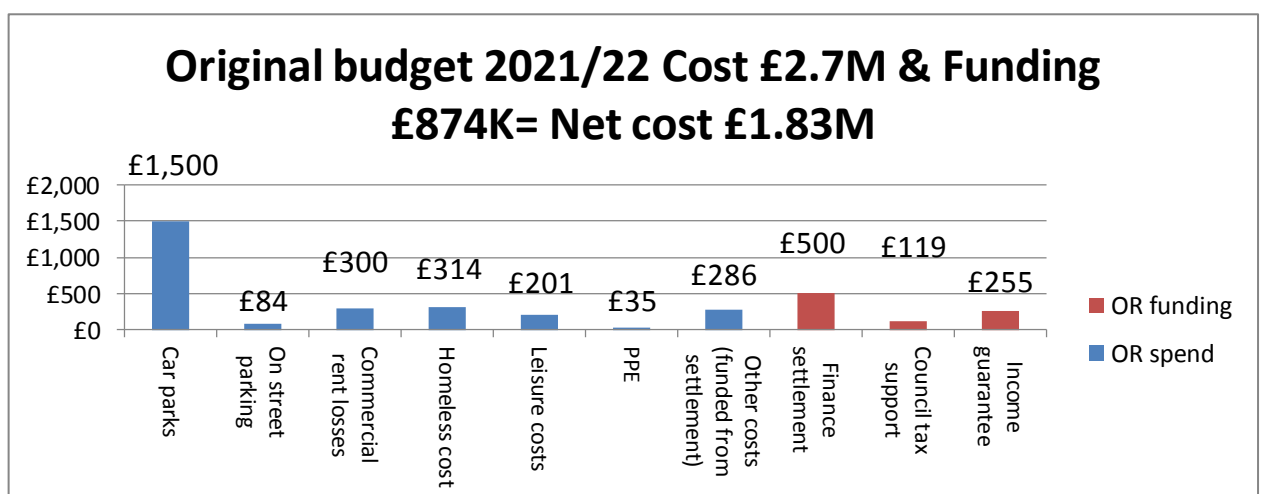
2.2.4 That the changes to the 2022/23 HRA budget savings totalling £1.037Million be approved for the HRA (para. 4.16.5).

2.2.5 That Members note the inflationary pressures outlined in paragraphs 4.9.4 and paragraphs 4.16.3-4.16.4.

## 3. BACKGROUND

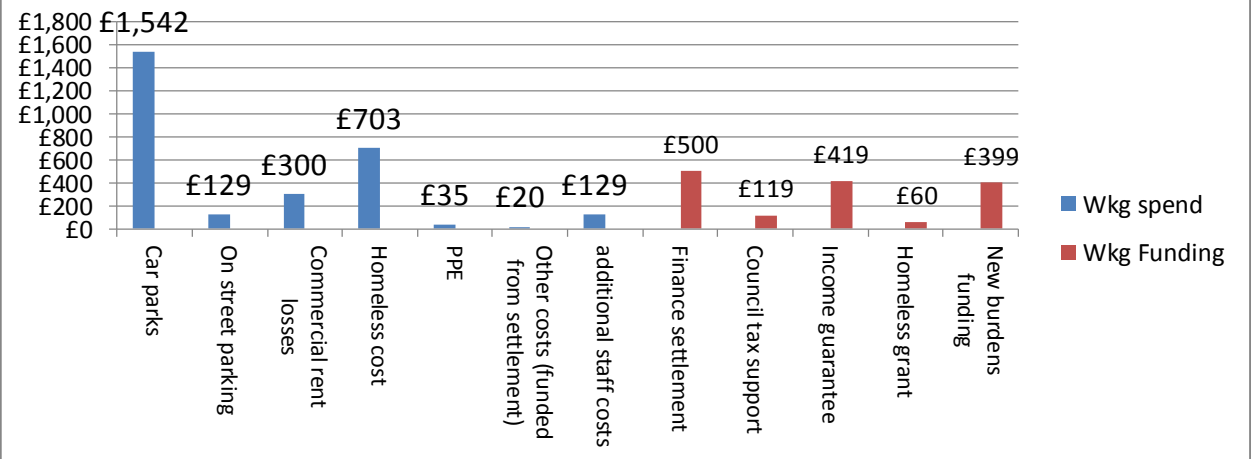
3.1.1 The General Fund working revenue budget of £11.665Million was approved by Members at the March 2022 Executive, as part of the Quarter 3 monitoring report.

3.1.2 Setting a budget for the period 2020/21-2022/23 has been difficult due to the uncertainty of the level of COVID related costs and loss of fees and charges and then how quickly expenditure and income levels would return to pre-pandemic levels. The Original 2021/22 General Fund budget included the costs and funding as shown below.



3.1.3 However it was unclear how quickly or otherwise cost and income patterns would return to 'normal' or whether there would need to be a permanent re-set of impacted budgets. The working budget was updated.

## Working budget cost £2.9M & Funding £1.5M =Net cost of £1.4M



- 3.1.4 It is inevitable that service activity and spend will be different to that of a normal financial year as well as fees and charges. This report will identify where possible the COVID related variation to budgets.
- 3.1.5 The HRA working revenue budget of £1.669Million (surplus) was approved by Members at the March 2022 Executive, as part of the Quarter 3 monitoring report.
- 3.1.6 The Accounts and Audit Regulations contain provisions on financial management, annual accounts and audit procedures. Within the amended regulations there is no requirement for Member approval of the Statement of Accounts prior to the completion of the external audit and only the Responsible Financial Officer is required to certify the presentation of the pre audit annual accounts.
- 3.1.7 In January 2021, the government consulted on amendments to the Accounts and Audit Regulations 2015 to implement recommendation, to extend the deadline for publishing audited local authority accounts to 30 September from 31 July. The deadline was extended for two years from 2021/22 with a review at that point to see whether there is a continued need to have an extended deadline. These regulations came into force on 31 March 2021. However the Council currently has both the 2019/20 and 2020/21 financial years open due to difficulties faced Council's and Audit companies. The 2019/20 accounts are estimated to be completed by the end of July, but the date for 2020/21 Completion is not yet known.
- 3.1.8 The deadline for unaudited accounts has been extended to the 31 July (2022) (formally 31 May) and the 2021/22 accounts are projected to meet that deadline.

## 4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

### 4.1 General Fund 2021/22 outturn

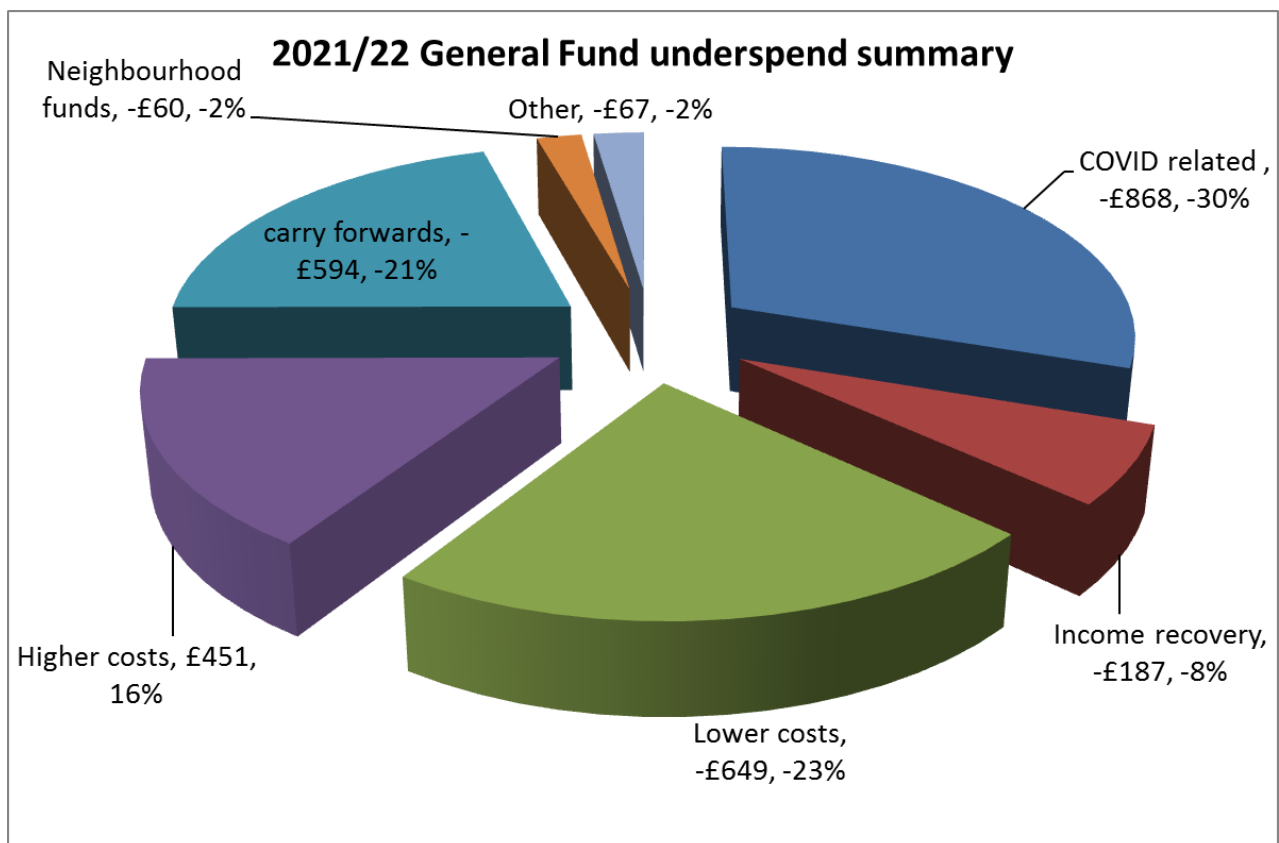
- 4.1.1 The 2021/22 Services Net Expenditure on the General Fund was £9.692Million, compared to a budget of £11.666Million. The in year underspend (before the consideration of any carry forward requests), was £1.974Million and net of carry forwards £1.345Million.
- 4.1.2 There was no transfer of underspends to the Capital reserve as in previous years (£350K), due to the uncertainty of 2021/22 in-year financial impact of COVID on the

General Fund, coupled with the projected year end 2022/23 balances of £3.886Million only £425K above minimum risk assessed levels. This was before any assessment of the current higher inflationary pressures which are now being predicted.

Extract from Final General Fund and council Tax setting report to Council 24 February 2022.

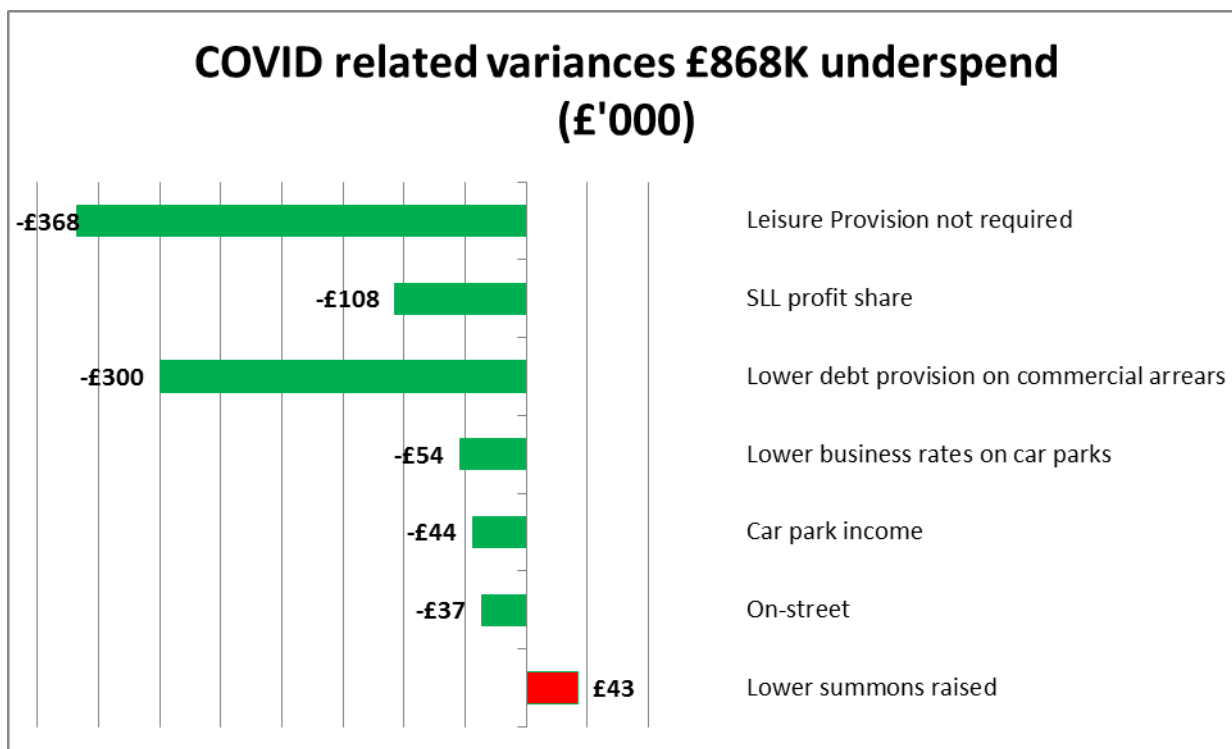
GF Balances £'000	2021/22	2022/23	2023/24	2024/25	2025/26
<b>Revised Balances at 31 March each Year:</b>	(£6,401)	(£4,942)	(£3,829)	(£3,349)	(£3,349)
<b>use of balances</b>	£1,459	£1,056	£492	(£9)	(£201)
<b>General fund Balance 1 March</b>	(£4,942)	(£3,886)	(£3,395)	(£3,404)	(£3,605)
<b>Minimum balances</b>		(£3,471)	TBD	TBD	TBD

4.1.3 The underspend versus working budget for General Fund is summarised in the table below and the reasons for variances are detailed in paragraphs 4.2 - 4.5.



## 4.2 COVID related underspends

4.2.1 The COVID related underspends are summarised in the table below along with commentary on why they occurred.



**4.2.2 Leisure Provision (£368K) & SLL profit share £108K-** The Council approved a level of provision of £1.3Million for the remaining period of the current leisure contract (up to 31 March 2023), to ensure that leisure provision would continue to be delivered post COVID lock down restrictions. The leisure sector was significantly impacted by loss of income during 2020/21 and 2021/22. Actual losses were less than originally forecast (supported by some government grants and loans) by Stevenage Leisure Limited (SLL), which has meant a profit share of £107K for the Council in 2021/22, (Members should note the contract sum is £859K), generated by officers working with SLL Management team to introduce cost saving measures. In 2022/23 SLL are predicting losses of £300K. Members approved a reduction in the contract sum for 2021/22 of £150K however this was not realised due to the impact of COVID and removed in the working budget.

**4.2.3** Due to the projected losses in 2022/23 the level of provision has been re-assessed, Members will need to consider whether they are applied to the contract later in the year, with the remainder transferred to the General Fund £368K and a further £363K transferred to an allocated reserve (subject to Member approval) to support the renewal of the leisure contract.

**4.2.4 Commercial rent bad debt provision (£300K)** - An amount was included in the Council's accounts for commercial rent loss, however this has not been required in 2021/22, due to a better collection rate and improved position on repayment arrangements for businesses in arrears. A further part two report will come back to the Executive on the arrears position and any recommended write offs.

**4.2.5 Business Rates Car Parks (£54K)** - Business rates for car parks are based on assumed income and due to the reduction in fees (as previously reported to Members) a refund has been received. There may be a smaller refund due in 2022/23 (still to be assessed). From 2023/24 the Medium Term Financial Strategy, (MTFS), assumes income will return to pre-COVID levels and therefore no

assumption about lower business rates has been currently included in current General Fund projections.

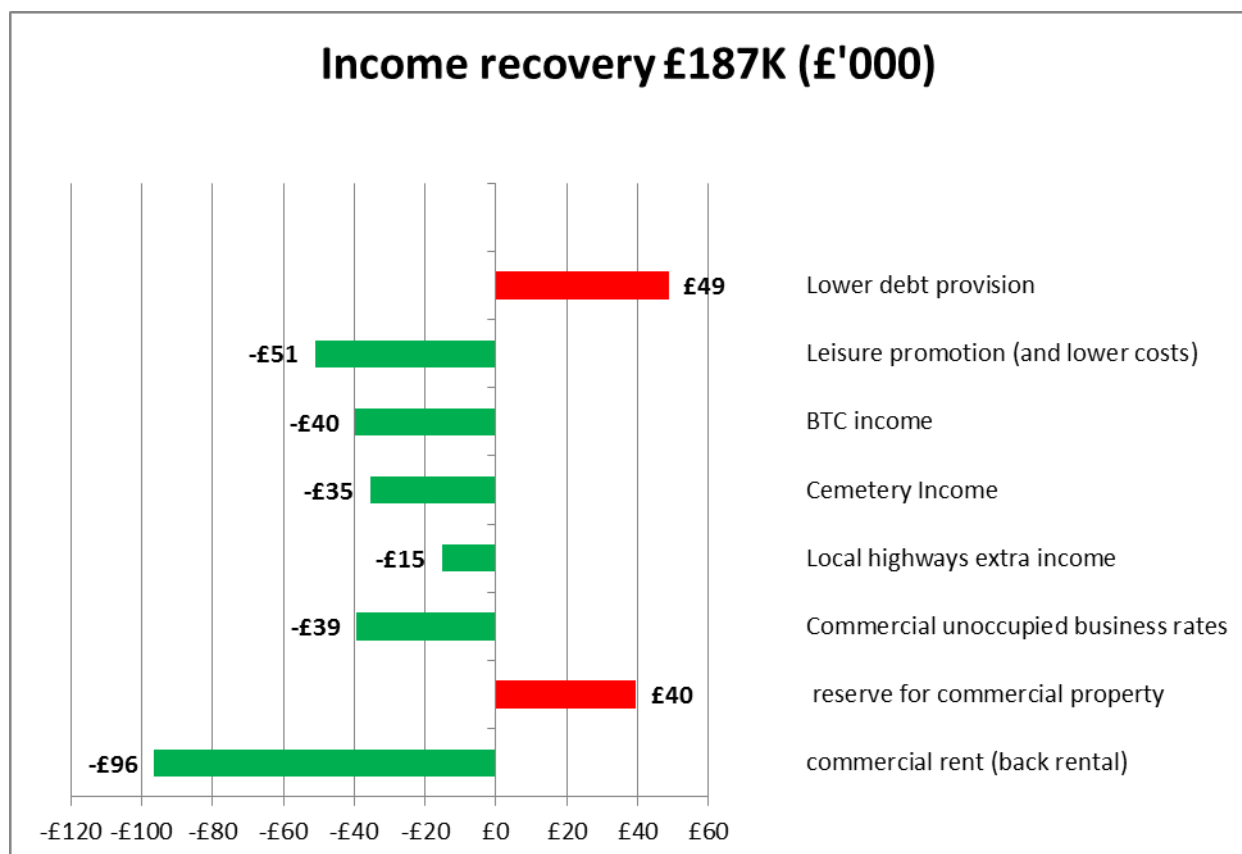
4.2.6 **Car Park income (£44K)** COVID has significantly impacted car parking income with losses of circa £2Million in 2020/21, with a further £1.5Million in 2021/22, the projection for 2021/22 was £44K better than the working budget. The government gave support to cover some of the losses through the income guarantee scheme which allowed for 75% of lost fees for the 2020/21 and the first three months of 2021/22, (less a 5% reduction compared to budget), with the Council shouldering the remaining losses through use of reserves.

4.2.7 **On-Street Parking (£37K)** As with off-street parking, on-street was impacted through the COVID period with £84K reduction assumed in the original budget and a further £84K reported during the year. The actual position improved by £37K.

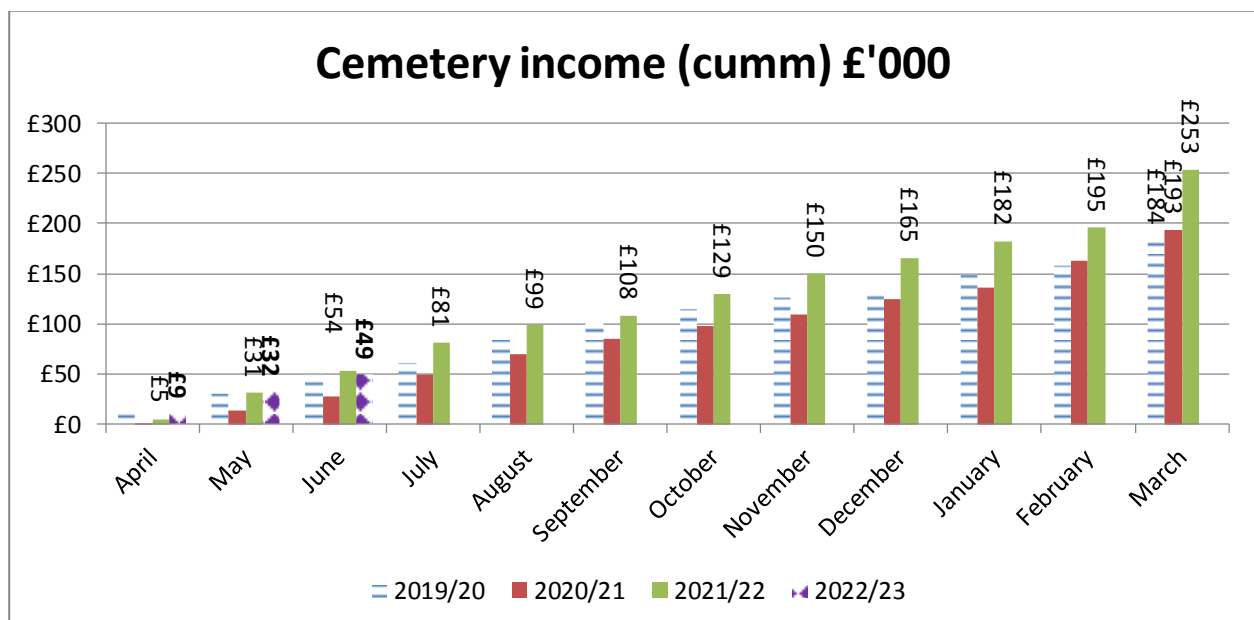
4.2.8 **Summons income (£43K adverse)** -The Council raises summons predominately on council tax and business rate arrears as it collects these income streams on behalf of the County Council, Police and central government. Court time was restricted during 2021/22 and that combined with the level of business grants and reliefs, track and trace and hardship fund payments limited activity on recovery of arrears. The level of arrears as at the end of 2021/22 is higher than in previous years and officers are now working with businesses and residents to improve that position.

### 4.3 General Fund Income Recovery

4.3.1 In reality these variances are probably linked to the underspends in section 4.2 and can be summarised as below.

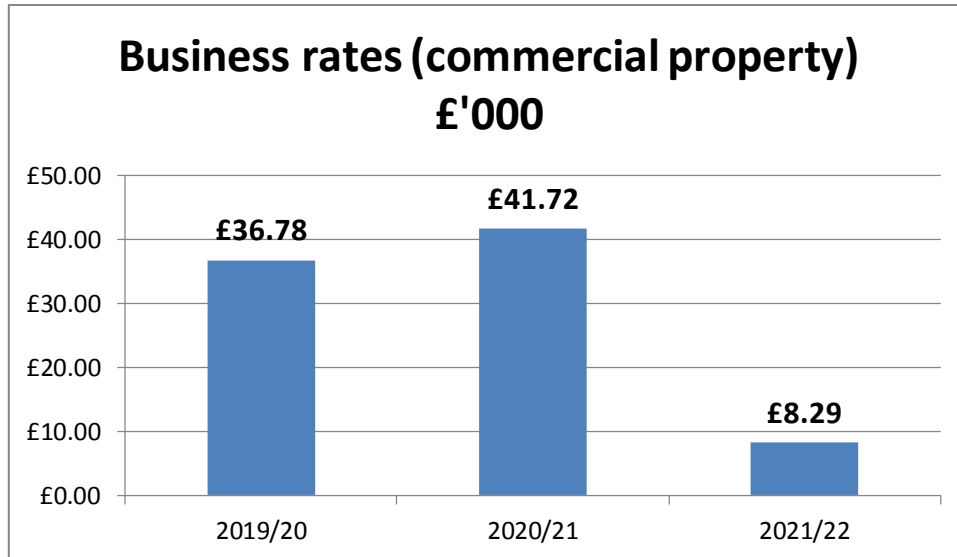


- 4.3.2 **Lower Debt Provision £49K**-The General Fund provided for £254K of debt provision in 2021/22 which covers trade, sundry, housing benefit overpayments and tenancy deposit arrears. The actual level required was net £49K lower, however there was an increase required for tenancy deposits of £81K higher than the £10K originally estimated due to the age profile of the debt. Part of the Council's 'Making Your Money Count' priority includes the 'Transformation' programme which has a work stream specifically reviewing debt process and procedures. Members will be updated as this work continues.
- 4.3.3 **Leisure Promotions £51K**- The Council received £38K more in sponsorship and contributions than assumed in the budget and had lower costs (£13K). The Council didn't run large scale events such as Stevenage Day in 2020/21 due to the pandemic restrictions.
- 4.3.4 **Business Technology Centre (BTC) contract income £40K**- the BTC is run by Wenta which is a third party on behalf of the Council and income was £40K higher than the budget representing a 3% increase on the budget (and £133K higher than 2020/21). Costs associated with the centre were lower impacted by COVID and officers are assessing whether a higher level of income will be sustained on-going. An update will be included in the 1st quarter monitoring report.
- 4.3.5 **Cemetery income £35K**- the level of income in 2021/22 was higher than in the two previous years and has been impacted by COVID. The 2022/23 income recorded thus far is in line with 2021/22 levels. Officers are not confident this trend will continue as a number of burial rights were purchased in 2021/22 inflating income alongside an increase in ashes interment due to the delays associated during the COVID period. This again will be assessed as part of the 1st quarter monitoring report.



- 4.3.6 **Local Highways income- £15K**- the increased income related to one specific development and was received in March 2022.
- 4.3.7 **Commercial Properties business rates £39K, Commercial property reserve (increased spend £40K) and Commercial rent £96K** – occupancy levels across

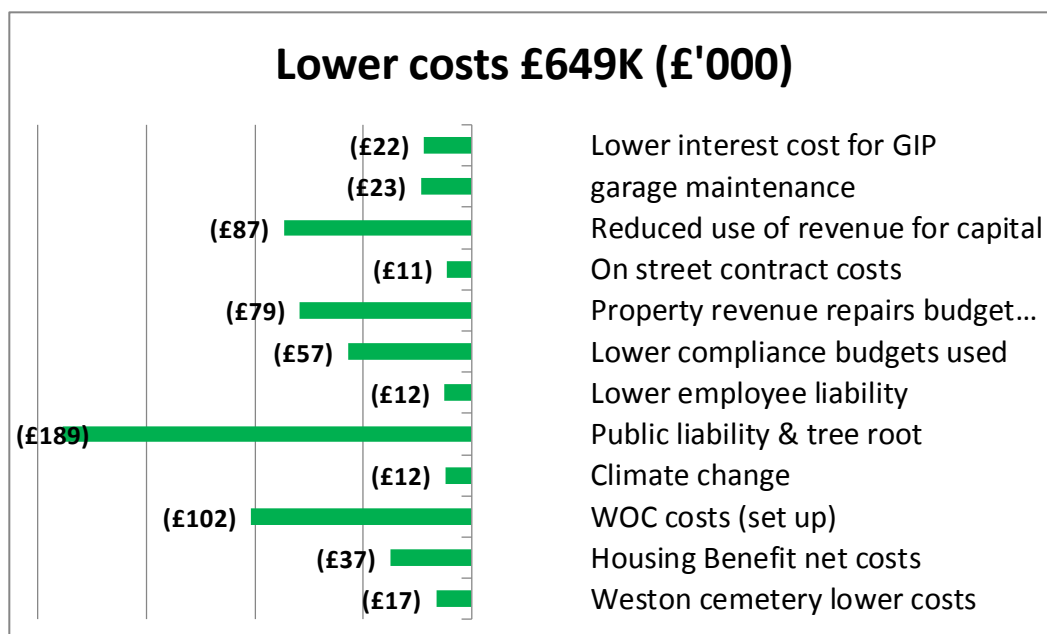
the Council's commercial property including predominately neighbourhood shop is high, which means that business rates on empty units has reduced, as shown below. The 2021/22 estimate assumes refunds re previous years, however **the estimate for 2022/23 has been reduced by £35.6K and reduces the General Fund net budget.** The level of spend will be subject to demand and may change in subsequent years.



4.3.8 Due to an administrative error a number of previously agreed rent renewal agreements were not included in later invoices. Accordingly backdated rent of £96K has been identified. All rent renewals have been reviewed and no other changes were identified. The Council raised income of £2.42Million in 2021/22, but has minimal budgeted funds to make minor improvements or repairs and Members are asked to approve the transfer of £41K to a commercial property reserve.

#### 4.4 Lower Costs than budgeted for

4.4.1 There were lower costs identified of £649K against expenditure, that was impacted by COVID in 2021/22 and explanations are detailed below.

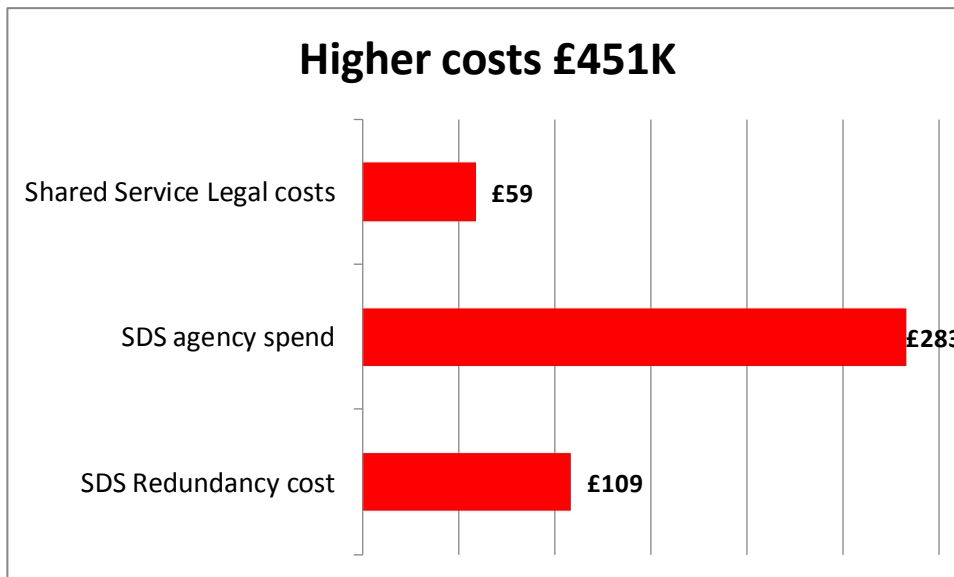




- 4.4.2 **Garage Improvement Programme (GIP) borrowing interest £22K-** The garage improvement programme had some planned slippage and the borrowing has yet to be taken. With the increase in the base rate to 1.25% Treasury Management officers are calculating the impact on both the General Fund and HRA. There will be a further update in the 1st quarter monitoring report. The impact for the General Fund is far less than that of the HRA based on the relative borrowing requirement of the two funds.
- 4.4.3 **Reduced Use of revenue resources for capital £87K-** A budgeted use of revenue to support capital has been removed from the 2021/22 budget to improve the financial resilience of the General Fund. Members should note there are sufficient capital resources to support the 2022/23 programme.
- 4.4.4 **Property Revenue Repairs £79K-** Members approved as part of the 2020/21 budget setting process a budget of £128K for identified priority repairs. This budget was carried forward into 2021/22 and £79K remains unused. The CFO recommends that this should be returned to balances to support the General Fund and if subsequently required a bid will be submitted as part of the quarterly monitoring process.
- 4.4.5 **Compliance Costs £57K-** The Council has insourced its management of compliance on its non-housing assets and there was an underspend on reactive compliance spend. COVID restrictions impacted on the level of repairs identified and completed and while the underspend is noted, this will be monitored during 2022/23. Works requiring external contractors are anticipated to increase with higher inflationary costs and a budget is not currently recommended.
- 4.4.6 **Insurance Costs (Employee and Public Liability) £201K-** The level of insurance costs in the General Fund and HRA is based on premiums and provisions required for claims, this was £913K for 2021/22 across the General Fund and HRA. The majority of the underspend relates to the successful defence of a tree root claim totalling £120K which was provided for in 2020/21 and no longer required, so returned to balances.
- 4.4.7 **Wholly Owned Company Costs (WOC) £102K-** The majority of the underspend were the budgeted one off set up of costs of £75K which were not used. The housing company has been set up under an existing limited company Marshgate Limited. Part of the remaining underspend relates to external audit fees which are minimal in 2021/22, due to timing of the WOC activity, but will be required on-going.
- 4.4.8 **Housing Benefit Costs £37K-** There was a net underspend on gross housing benefit costs of £23.5Million benefit costs (including bad debt), the underspend represents 0.16% of the gross spend and is dependent on the level of benefit given and reclaimed.

#### **4.5 Higher General Fund Costs**

- 4.5.1 There were a number of significant overspends versus the working budget which are summarised in the table below together with explanations.



4.5.2 **Shared Service Legal Costs £59K adverse** -The Council has a shared legal service with Hertfordshire County Council which had a total budget of £427K versus an actual spend of £486K, which represents an overspend of £59K. The fees are based on an hourly rate. The CFO has asked the Borough Solicitor to review the enquiries sent to the shared service.

4.5.3 **Stevenage Direct Services (SDS) agency spend £283K adverse**- There was an overspend on staffing costs across Environmental Maintenance, Refuse and Recycling of £283K.

£'000	Original Budget 21/22	Working Budget 21/22	Actuals 21/22	Variance
<b>Salaries</b>	£1,729	£1,479	£1,452	(£28)
<b>Agency</b>	£159	£504	£815	£311
<b>Total</b>	<b>£1,887</b>	<b>£1,983</b>	<b>£2,271</b>	<b>£283</b>

4.5.4 A review of the additional costs indicated a number of matters which related to the shortage of HGV Drivers including a trial period to increase teams to support the additional recycling from the outcome of COVID which is now part of the establishment and the need to use agency to support the operational needs for weekend working. These are being kept under review during 2022/23.

4.5.5 **Redundancy costs £109K**- an amount of £109K was accrued in 2021/22 which relates to the restructure in SDS business unit. When the restructure was approved by the Senior Leadership Team (SLT), no redundancies were anticipated, however one long serving member of staff was subsequently made redundant and the cost includes pension strain.

## 4.6 Carry Forwards

4.6.1 A table of carry forwards requested for approval by Members is shown below and total £654K, this includes an amount from general underspend to support ongoing delivery of the Co-operative Neighbourhood programme.

Service Area	Carry Forward Requests	Carry Forward Value
Local Elections	request to fund the AV improvement works (Webcasting System in the Council Chamber and Committee rooms)	£65,740
Accommodation. For Ex-Offenders	Unspent Grant to be carried forward	£15,390
Next Steps Accommodation	Unspent Grant to be carried forward	£46,430
COVID related grants	Grants relating to Health inequalities and stress in the work place committed but not be spent and requested for carry forward to 2022/23	£84,000
Environmental Development	Budget carry forward for provision of picnic tables	£8,660
Customer Services - subscriptions	to fund the implementation of the CSC Delivery Model (order placed with Premier CX in 22/23)	£10,000
IT Support Costs - SBC	one-off growth received in 21/22 to fund the Real Asset Management upgrade, which is to be completed in 22/23. This is the system that records the Council's asset values.	£15,000
GDPR - agency	To fund interim Records Governance Manager in 22/23	£45,000
H&S - HCC income	To support employees mental health and wellbeing	£18,000
HR - salaries	To fund 12 month Ass. HR Business Partner in 22/23 (Transformation capacity)	£40,000
Employee Costs - Garages	There was a post included in the garage void reduction business case which hasn't yet been recruited to.	£50,000
HCC Reimbursements - AFM	More income than expected from the AFM, request to carry forward to enable works at Cavendish Road included a roof over the general waste bay	£31,200
Policy - salaries	to assist fund interim management arrangements in 22/23	£94,740
Policy - special activities	To fund the Diabetes project, which is underway	£10,000
Civic Links	To fund the 2022/23 Town Twinning event in 2022/23	£24,500
Environmental Development	To fund the spring clean for 2022/23 (was planned for 2021/22)	£35,000
Co-operative Neighbourhoods	The seed funding of £18K was cut from the budget for 2022/23, but a commitment was made in the budget report to support the priority through underspends up to a total of £60K	£60,000
		<b>£653,660</b>

#### 4.7 General Fund Core Resources

4.7.1 The budgeted level of Core Funding for 2021/22 (as detailed in the table below), was £10.222Million; the total amount recognised in the 2021/22 pre-audited accounts is £10.199Million, a pressure of £23K.

Core Resources	2021/22 working Budget	2021/22 Outturn	Variance
	£	£	£
Business Rates net of tariff <i>(note 1)</i>	(£2,756,418)	(£2,741,596)	£14,822
Business Rates Levy <i>(note 2)</i>	£474,069	£482,579	£8,510
Business Rates Collection Fund Surplus/(Deficit) 2020/21 <i>(note 3)</i>	£8,453,530	£8,453,530	£0
Business Rates Collection Fund (Surplus)/Deficit pre- 2020/22	(£821,128)	(£821,128)	£0
Net transfer from S31 NNDR reserve <i>(note 4)</i>	(£5,282,497)	(£5,436,178)	(£153,681)
Section 31 Grant	(£3,872,946)	(£3,719,265)	£153,681
Council Tax Collection Fund (Surplus)/Deficit	(£40,152)	(£40,152)	£0
Council Tax SBC Precept	(£6,117,154)	(£6,117,154)	£0
Council Tax Support Grant (finance Settlement)	(£118,859)	(£118,859)	£0
Lower Tier Grant (Finance settlement)	(£140,043)	(£140,043)	£0
<b>Total Core Funding Position</b>	<b>(£10,221,598)</b>	<b>(£10,198,266)</b>	<b>£23,332</b>

4.7.2 The reasons for the variances are given below:

- Business Rates – The amount of business rates in the General Fund is fixed at the point the budget was approved in February 2021 and was included in the NNDR1 return to government. Any variance from this amount is accounted for in future years. There was a variance on the 2020/21 tariff of £14,822 (adverse) which was accrued in the accounts (linked to the Taxation Income Guarantee (TIG)). *(note 1)*
- Business Rates Levy – The amount of Levy payable, in 2021/22 is higher than budgeted as the actual business rate income received was slightly higher and £172K will be returned to the General Fund in 2023/24.*(note 2)*
- For 2021/22 this means a total of £8.45Million is repayable to the collection Fund. Government COVID reliefs to businesses during 2020/21 reduced the amount of business rates collectable, however as stated in above the amount taken from business rates is fixed for the year, so any extra taken has to be returned in future years. *note 3)*
- There will be a repayment to the Collection Fund in 2022/23 as a result of 2021/22 COVID reliefs given after the budgeted business rates were approved for the year and this is reflected in the net transfer to the S31 Reserve. *(note 4)*
- Section 31 Grant and Section 31 Grants Transferred to Reserves – The amount of Section 31 grant received is lower than the working budget (£153K), the transfer from the reserve matches this difference as more has been collected in business rates. The net credit to the General Fund is a combination of 2020/21 monies being transferred back to match the repayment to the Collection Fund (£8Million) and a transfer to the fund for 2021/22 reliefs of £3Million.

This is done so as not to artificially inflate General Fund reserves, because for 2020/21 and 2021/22 the government gave COVID reliefs after the NDR due to SBC was calculated. The COVID reliefs generate a S31 grant to the Council in year, while at the same time the Council budgets take a higher amount from the Collection fund than would be collectable and this is repaid to the Collection Fund 2021/22-2023/24.

#### 4.8 2021/22 General Fund Budget

4.8.1 The outturn position for the General Fund budget is summarised in the table below and will be incorporated in the next General Fund Medium Term Financial Strategy (MTFS) update.

General Fund Outturn Position	2021/22 Budget	2021/22 Outturn	Variance
	£	£	£
Services Net Expenditure	£11,665,830	£9,691,634	(£1,974,196)
Core Resources (including TIG)	(£10,221,598)	(£10,198,266)	£23,332
General Fund Outturn Position	£1,444,232	(£506,632)	(£1,950,864)
Balance Brought Forward	(£6,400,870)	(£6,400,870)	£0
Use of balances	£1,444,232	(£506,632)	(£1,950,864)
Balance Carried Forward	(£4,956,638)	(£6,907,502)	(£1,950,864)

#### 4.9 Impact on 2022/23 General Fund Budget

4.9.1 A large part of the 2021/22 underspend has been categorised on a one time basis, however there are a number of on-going budget savings as shown in the table below.

Service Area	2022/23 budget impacts	£
Commercial properties	Reduction in business rates on unoccupied properties	(£35,600)
Investment Property rent	Increase in commercial income due 2022/23	(£40,520)
Other changes		(£17,960)
<b>Total</b>		<b>(£94,080)</b>

4.9.2 There are also some identified savings which have arisen from a review of the 2022/23 budget which are recommended for inclusion in the 2022/23 working budget. These are listed below.

Service Area	2022/23 budget impacts	£
Shared Service income	Additional income calculated due from shared services	(£89,210)
Highways	Renegotiation of highways agreement	(£18,550)

Service Area	2022/23 budget impacts	£
Other	Minor variances	£21,000
<b>Total</b>		<b>(£86,760)</b>

4.9.3 The 2022/23 General Fund working budget is now projected to be as shown below. This shows a net improvement in 2022/23 year end balances of £1.4Million.

Core Resources	2022/23 Budget £'000	2022/23 Revised Working Budget £'000	Variance £'000	Changes to 2023/24 budget £'000
<b>Net Expenditure:</b>				
3rd Quarter Net Budget	£11,072	£11,072	£0	£0
Carry Forwards		£654	£654	£0
Closure on-going savings		(£94)	(£94)	(£94)
New savings identified		(£87)	(£87)	(£87)
<b>Net Expenditure</b>	<b>£11,072</b>	<b>£11,545</b>	<b>£473</b>	<b>(£181)</b>
<b>Core Resources:</b>				
Government Support - Retained Business Rates (NDR)	(£1,785)	(£1,785)	£0	£0
S31 Grants	(£1,618)	(£1,618)	£0	£0
Transfer to/from S31 reserve	(£3,776)	(£3,776)	£0	£0
Transfer to/from Collection Fund reserve 2021/22 (NDR)	£3,745	£3,745	£0	(£171)
Transfer to/from Collection Fund (Council Tax)	(£50)	(£50)	£0	(£26)
Lower Tier COVID Grant	(£118)	(£118)	£0	£0
Service Grant	(£177)	(£177)	£0	£0
District Precept	(£6,317)	(£6,317)	£0	£0
<b>Total Core Resources</b>	<b>(£10,096)</b>	<b>(£10,096)</b>	<b>£0</b>	<b>(£197)</b>
<b>Use of General Fund Balances</b>	<b>£976</b>	<b>£1,449</b>	<b>£473</b>	<b>(£378)</b>
<b>General Fund Balance:</b>				
Balance 1 April	(£5,022)	(£6,996)	(£1,974)	
Use of Balances in Year	£976	£1,449	£473	
<b>General Fund Balance 31 March</b>	<b>(£4,046)</b>	<b>(£5,547)</b>	<b>(£1,501)</b>	

4.9.4 However, due to the higher levels of inflation currently being experienced it is likely that the Council's inflationary pressures will increase.

The General Fund budget included:

- A 2% pay award and every 1% above that equates to a circa £150K increase in inflation costs, the September MTFS will include an updated projection, based on the latest modelling.
- Utility inflation of £160K is estimated to cost an additional £130K, this is being tracked (part of the increase is implemented 1 October 2022) and an update will be included in the September Executive MTFS.
- Fees and charges income may come under pressure as residents are impacted by the cost of living increases.
- Borrowing costs of £64K has been included in the 2022/23 budget for the garages investment programme, this was based on a 2.2% rate of interest which is now 3.31%, the September MTFS will be updated with the latest projection.
- Parking income has still not returned to pre-COVID levels and although a £694K loss was included in the 2022/23 budget this is currently looking a further £100K more, again will be updated in the September MTFS.
- Homeless bed and breakfast cost the Council (gross) £1Million in 2021/22, funded in part by claimed housing benefit and grants. The current projections are indicating a possible £55K pressure and the MTFS will be updated in the September for this.

4.9.5 The underspends arising in 2021/22 will improve the financial resilience of the General Fund during this period of increased financial risk.

#### **4.10 Reserves**

4.10.1 Allocated Reserves - Some balances are 'ring fenced' and have been set aside for specific purposes. The total value of allocated reserves available for the Council to spend at 31 March 2022 is £4.8Million.

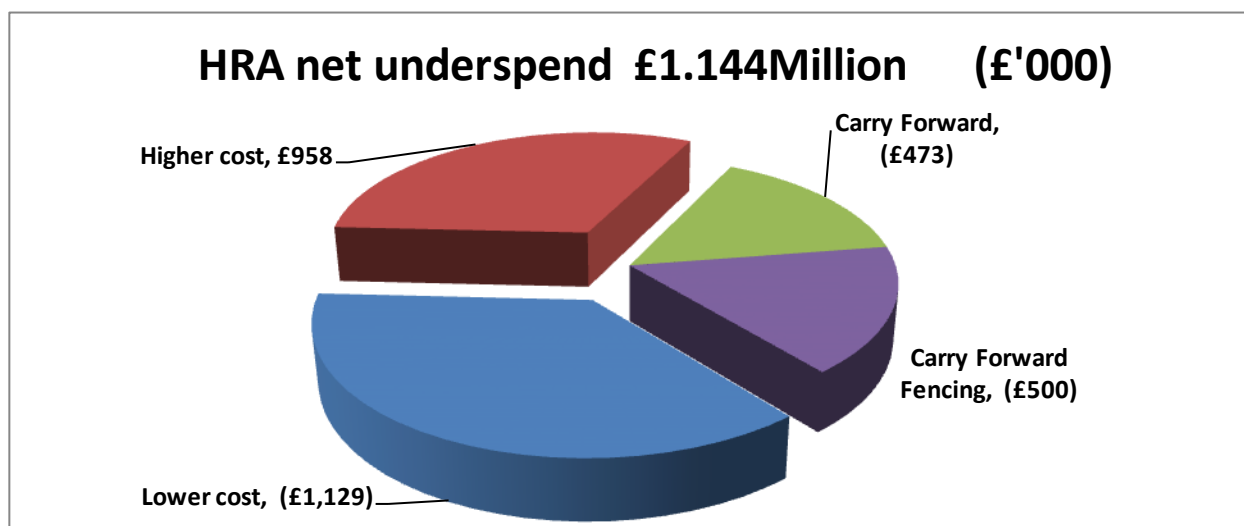
4.10.2 The reserve balances remaining at 31 March 2022 may seem a significant sum but are held for specific purposes, some of which are set out below. These mean they are not available to fund General Fund expenditure with the exception of NDR gains and the income equalisation reserve.

- £649K required to fund the holding costs of assets due for regeneration, *(note 1)*
- £1.16Million of NDR reserves of which £619K relates to gains for 2022/23 not yet realised *(note 2)*
- £276K to fund the Councils Transformation ambitions and to support the 'Making Your Money Count' priority *(note 3)*
- £544K grant funding ring fenced for homeless and rough sleeper initiatives *(note 4)*
- £363K to support the retendering and delivery of the new leisure contract *(note 5)*

Reserves £'000	Opening 2021/22	Use	Closing 2021/22	Use	Closing 2022/23
NHB reserve	(£469)	(£10)	(£479)	£474	(£5)
Transformation Reserve <i>note 3</i>	(£330)	(£176)	(£506)	£230	(£276)
Homeless reserve <i>note 4</i>	(£370)	(£175)	(£545)	£0	(£545)
Planning Delivery	(£65)	£3	(£62)	£0	(£62)
<b>New</b> Queensway Car Park monies	£0	(£39)	(£39)	£0	(£39)
Town square reserve <i>note 1</i>	(£1,017)	£368	(£649)	£0	(£649)
Regeneration Reserve	(£746)	£366	(£380)	£295	(£85)
Insurance reserve	(£76)	£11	(£65)	£54	(£11)
<b>New</b> ICT reserve	£0	(£316)	(£316)	£0	(£316)
Town centre	(£81)	£39	(£42)	£0	(£42)
<b>New</b> Leisure reserve <i>note 5</i>	£0	(£363)	(£363)	£363	£0
<b>New</b> Commercial Property repair reserve <i>see para 4.3.7</i>	£0	(£41)	(£41)	£0	(£41)
Capital reserve	(£1,328)	£1,284	(£44)	£44	£0
<b>Total Allocated for use</b>	<b>(£4,482)</b>	<b>£951</b>	<b>(£3,531)</b>	<b>£1,460</b>	<b>(£2,071)</b>
Income equalisation Reserve	(£8)	(£250)	(£258)	(£200)	(£458)
Gains (NNDR) <i>note 2</i>	(£1,645)	£627	(£1,018)	(£145)	(£1,163)
Total Available to support the GF	<b>(£1,653)</b>	<b>£377</b>	<b>(£1,276)</b>	<b>(£345)</b>	<b>(£1,621)</b>
<b>Total allocated reserves</b>	<b>(£6,135)</b>	<b>£1,328</b>	<b>(£4,807)</b>	<b>£1,115</b>	<b>(£3,692)</b>

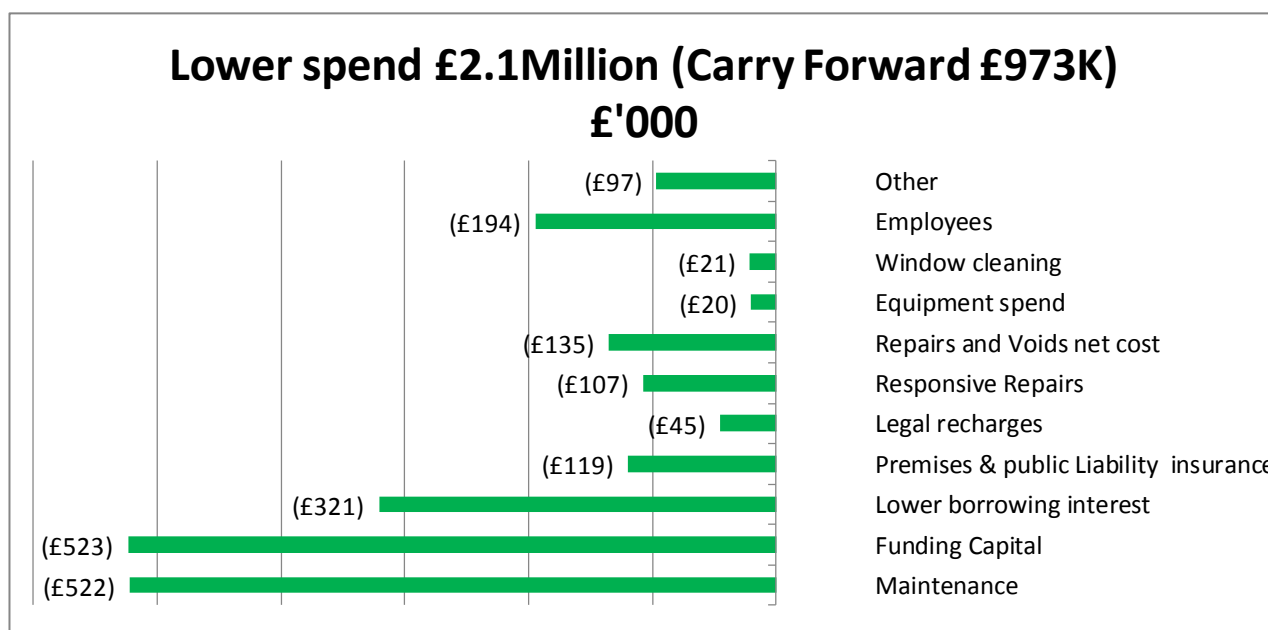
#### 4.11 Housing Revenue Account (HRA)

4.11.1 The 2021/22 outturn position on the HRA was an in year surplus of £2.813Million, a £1.144Million increase from the working budgeted surplus of £1.669Million. The main variances to the working budget are highlighted below.





4.12.1 There were underspends of £2.1Million which are listed in the chart, together with explanations that are detailed below.



4.12.2 **Funding Capital £523K-** There was slippage on the Capital programme (£6Million) which reduced the need for capital funding, however this will be required in future years and the funding will need to be reviewed as part of the HRA Business Plan refresh in the autumn.

4.12.3 **Lower Borrowing costs £321K-** The amount of external borrowing was lower than estimated partly due to the slippage on the 2021/22 capital programme and the level of external loans taken. There were £29Million of 2021/22 loans not yet taken in year and there is a further £20.19Million loans to be taken for 2022/23. Borrowing costs are higher than budgeted for as a result of the increase in the Bank of England base rate to 1.25%.

4.12.4 An assessment is currently being undertaken to re-calculate the increase in borrowing costs, as a result of the increase in the Bank of England base rate. The PWLB rate for 25 year majority loans was 3.55% on the 20 June 2022. The HRA has an allocated reserve to increase revenue balances as a result of interest rate fluctuations of £3.42Million.

4.12.5 **Premises and general insurances £119K-** the HRA as well as the General Fund has a reduction in insurance costs. Insurance costs are a combination of premiums and estimated provision need and the level of provision required reduced for 2021/22. This underspend includes increased income from leaseholders for insurance recharges of £72K, partly offsetting the additional cost identified in para.4.13.4.

4.12.6 **Legal Recharges £45K,** the cost to the General Fund for the shared legal service increased (see para. 4.5.2), but there was a reduction for the HRA. Costs are apportioned on actual legal work carried out and are demand led.

4.12.7 **Responsive Repairs £107K** there was a 3.71% underspend on the responsive repairs working budget. Completion of repairs has been impacted by COVID.

However there was also a reduction in rechargeable repairs income of £188K (see higher costs below).

4.12.8 **Repairs and Voids Net cost £135K**-the HRA was budgeted to fund the net cost of the Repairs and Voids service (£1.7Million, increased from the original budget of £738K as a result of COVID pressures). The actual net cost was lower by £135K, detailed in 4.14.1 below.

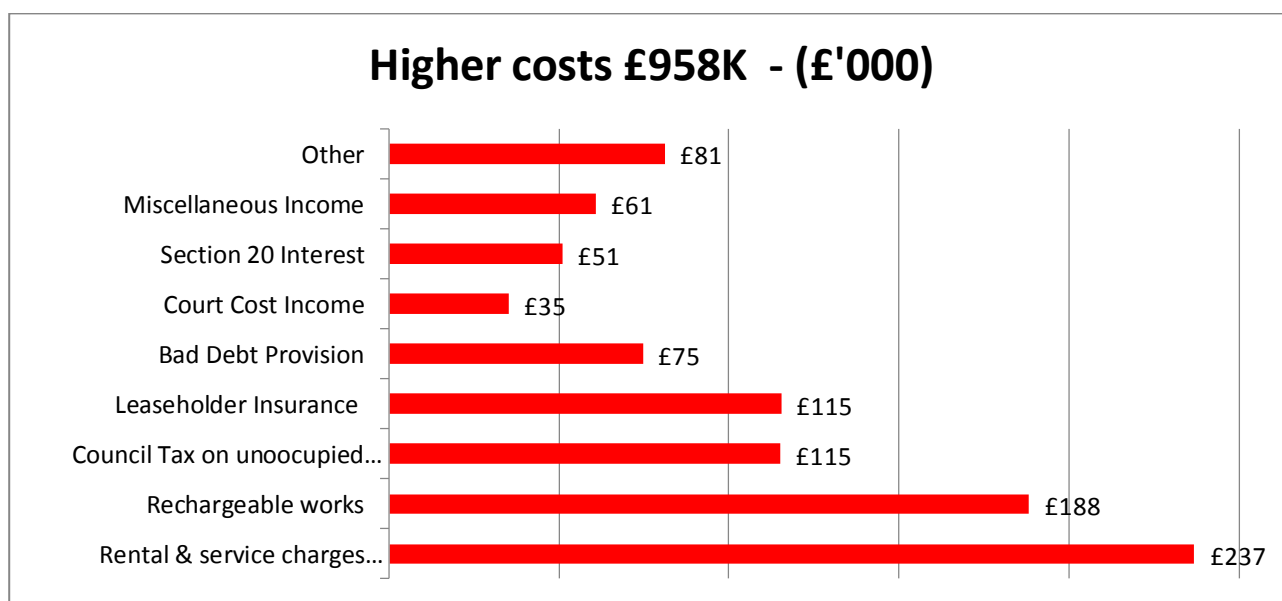
4.12.9 **Maintenance £522K** – this variance was on cyclical maintenance (£233K) and the building safety budget (£289K). Timing of the programme led to an under spend on cyclical maintenance last year. However, the current year’s programme is covered by existing budget provision, so it is proposed to carry forward the £233k to offset against the current fencing backlog. The remaining variance relates to the building safety budget and is due to timing of works. It is requested that this is carried forward, as this budget is time limited in the HRA Business Plan.

4.12.10 **Employee costs £194K** – overall there was £194k underspend on employee costs against the working budget. However, a large proportion of this relates to externally supported posts in the independent living service that have been providing COVID prevention measures in the schemes. A request has been made to carry forward £140K of this underspend in order to maintain protection measures in 2022/23 and fully utilise the external funding.

4.12.11 **Other underspends £66K**- This included an equipment budget of £20K and reduction in window cleaning costs of £21K.

#### 4.13 Higher Costs/Lower income than budgeted for

4.13.1 There were higher costs of £958K which is summarised below together with explanations.



4.13.2 **Rental and service charge income £237K** –This reduction in income includes the actual adjustment to leaseholder charges for 2020/21 which is calculated and adjusted for in the following year. The reduction, predominately in service charges,

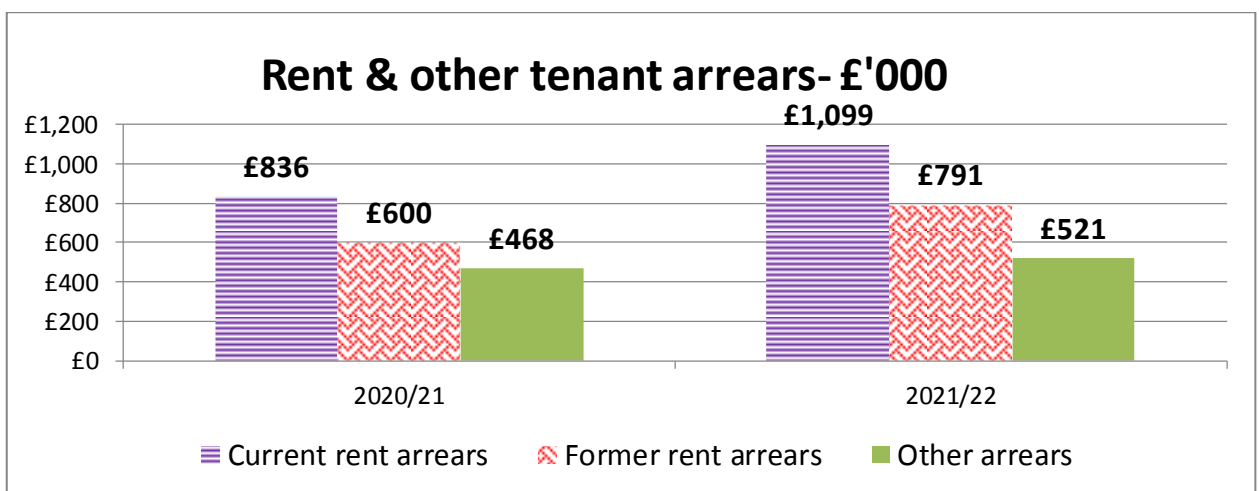
reflects the lower levels of activity during the pandemic and was consistent with lower volumes of jobs completed over this period. There was also a reduction in temporary accommodation rental income resulting in losses of £54K, due in part to a more complex process for letting during the COVID pandemic.

4.13.3 **Rechargeable works (for repairs) £188K** –The level of works completed (see paragraph 4.12.7) was lower and the level of rechargeable repairs completed was far less than in a normal year. This may also impact leaseholder recharges in 2022/23, when adjustments for actual costs are made.

4.13.4 **Leaseholder Insurance £115K-** This premium has gone up substantially driven by claim history (from £110K in 2020/21) to £225K. It will not be possible to fully recover these costs (due to s20 regulations for leaseholders), until the policy is retendered in 2023. However, £72K was recovered in 2021/22 (see para 4.12.5), partially relating to an actual adjustment to the 2020/21 billing, that has helped to mitigate the premium increase.

4.13.5 **Council Tax on void properties £115K-** The 2020/21 actual cost was £179K, with a 2021/22 working budget of £130K. The actual cost was significantly higher as more properties moved into the long term empty category which attracts a 150% council tax liability. This includes properties held empty for redevelopment purposes. In order to minimise the cost to the Council going forward, all void properties are being monitored and reviewed on a monthly basis.

4.13.6 **Bad Debt Provision £75K and court costs £35K-** This increase was caused by a higher arrears balance at year end (2021/22 £2.4Million versus £1.9Million 2020/21) and the proportion of that debt that has moved into the older age categories, (total provision made £299K). Some of this would be due to the moratorium on legal action during the pandemic and the backlog that this has caused in the court system, also reducing court cost income raised. This position may continue into 2022/23, especially in light of the current economic climate.



4.13.7 **Section 20 interest £51K-** An amount of interest on leaseholder major works loans was estimated for the Major Repairs Contract leaseholder charges. Loan applications from the first batch of bills have not materialised, but this does mean the Council will recover the associated costs more quickly.

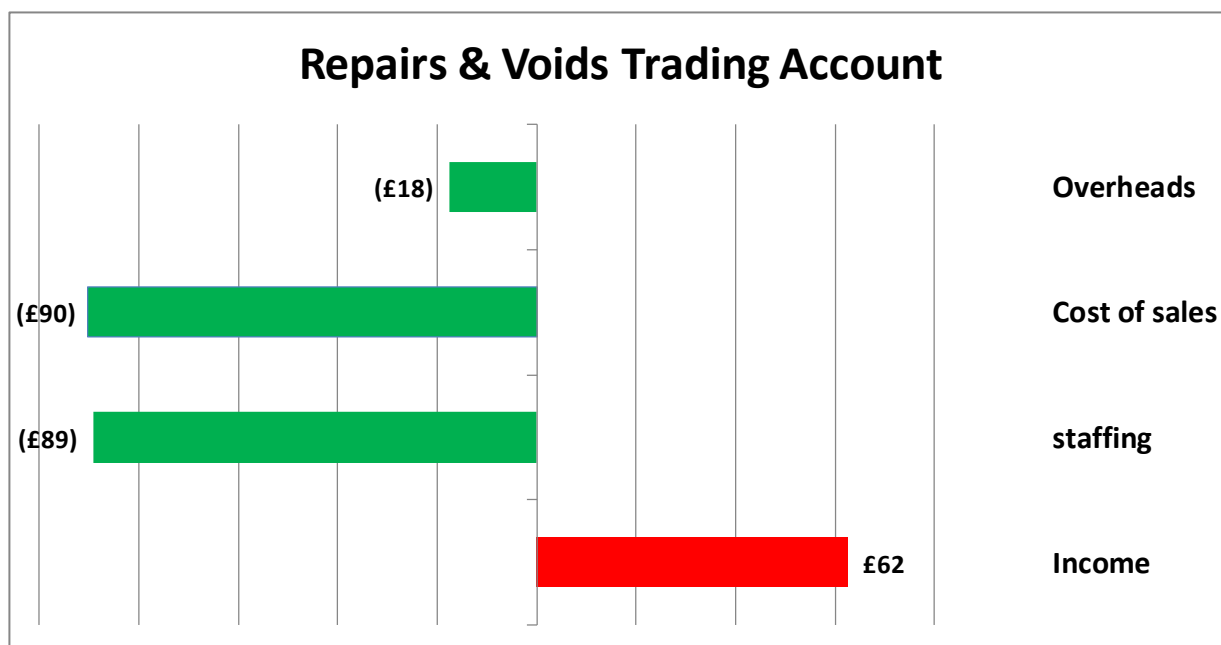
4.13.8 **Housing Development income £61K**- this budget allows for costs to be recovered when developing schemes with partners. However, this does depend on the current projects that are being undertaken. During last year, there was limited opportunity to pass on scheme costs, due to the mix of work completed. This led to the budget shortfall of £61K, with only £14K recovered.

4.13.9 **Other overspends £81K**- This was over a number of budgets but included:

- CCTV costs (£19K) with more sites being included. Consideration needs to be given whether this is recovered through service charges in 2022/23.
- Utility costs increase (£35K) part of this may be recoverable through service charges (subject to s20 regulations).
- Mobile phone costs (£26K) During COVID there was an increased use of work mobiles and lower costs for the office based system. This is likely to remain with hybrid working and the increased costs will need to be built into future budgets.

#### 4.14 Repairs and Voids Service Financial Performance

4.14.1 The Repairs and Voids service had a reduction of £134K in total net costs compared to the working budget of £1.7Million (see also para.4.12.8). There was a lower level of works completed impeded by COVID. The carry forward request in para. 4.15.1 include recommendations to use underspends to increase the resources available to backlog fencing works.



#### 4.15 Carry Forwards

4.15.1 As part of Quarter 4 monitoring carry forwards of £706K plus a further £266K to fund backlog fencing works were identified and listed below.

Service Area	Carry Forward Requests	Carry Forward Value £
Cyclical Maintenance	Request to use the cyclical maintenance underspend to fund part of the fencing backlog.	£233,290
Building Safety	This is a time limited budget within the HRA BP and it is requested to c/f the unspent money to cover planned works.	£288,460
Health Protection Funding	This is funding to support the independent living schemes and is required in 2022/23 and is ring fenced monies	£140,000
Housing Development consultancy costs	The under spend in year is requested for carry forward to support future schemes.	£20,250
Employee costs	To support the continuation of the lean repairs review for a further six months	£24,200
<b>Total</b>		<b>706,200</b>
Use of General Underspends	To further resource the budget for backlog fencing repairs which have increased during the COVID pandemic (to a total of £500K)	£266,710
<b>Grand Total</b>		<b>972,910</b>

#### 4.16 2021/22 – HRA Out-turn Position

4.16.1 The 2021/22 outturn position on the HRA included in this report and its impact on reserves are summarised in the table below.

HRA Reserves £'000	2021/22 Original Budget £	2021/22 Working Budget £	2021/22 Actual £	Variance to Working £
<b>HRA Balance 1 April</b>	<b>(£25,395)</b>	<b>(£25,395)</b>	<b>(£25,395)</b>	
In Year (Surplus) / Deficit	(£2,720)	(£1,669)	(£2,813)	(£1,144)
<b>HRA Balance 31 March</b>	<b>(£28,115)</b>	<b>(£27,063)</b>	<b>(£28,208)</b>	<b>(£1,144)</b>

4.16.2 The HRA business plan projects that the HRA needs to hold significant revenue balances to allow for the repayment of future HRA borrowing. The 2022/23 budget required a minimum of £25Million to be held for this purpose. Part of the under spend in 2021/22 relates to the funding of slippage on the capital programme (£523K) which is required in future years. The HRA had £220Million of borrowing at the year end.

4.16.3 In addition to the borrowing above the HRA has planned to take further loans as set out in para. 4.12.3. At the time of setting the budget those new loans were estimated at an average of 2.18% compared to current rates of circa 3.55%. The impact of this on the HRA is currently being reviewed and will be included in the 1<sup>st</sup> quarterly monitoring report.

4.16.4 As with the General Fund it is likely that due to the higher levels of inflation currently being experienced, the HRA inflationary pressures will increase.

The HRA budget included:

- A 2% pay award and every 1% above that equates to a circa £78K (General Fund £150K) increase in inflation costs, this will also impact on the grant funded posts reducing the impact of grant funding). The 1<sup>st</sup> quarterly monitoring report will include an updated projection, based on the latest modelling.
- Utility inflation of £160K is estimated to cost an additional £383K (General Fund) £130K, this is being tracked (part of the increase is implemented 1 October 2022). Some of this increase may be subject to S20 limitations and may not be recoverable from leaseholders. An update will be included in the 1<sup>st</sup> quarterly monitoring report.

4.16.5 The impact on the 2022/23 HRA budget is shown in the table below, this does not currently include the impact of higher borrowing costs or utility or pay inflation impacts. In addition the increase in construction costs is likely to impact on the HRA capital programme with a knock on impact on resources and borrowing costs.

HRA Budget £'000	On-going	Budget changes	2022/23 Budget £
<b>Original Budget</b>			<b>(£1,956)</b>
Quarter 3 carry forwards requests			£325
<b>Working budget</b>			<b>(£1,631)</b>
Quarter 4 carry forwards requests	N	£973	
Increased leaseholder premiums	Y	£115	
Increase in leaseholder premiums income	Y	(£72)	
increased cost of phones	Y	£26	
changes to service charge income for leaseholders	N	(£5)	£1,037
<b>HRA Working Budget</b>			<b>(£594)</b>
<b>HRA Reserves</b>			
Opening Balance			(£28,208)
Working budget			(£594)
Closing balance			(£28,802)

4.16.6 There will be a refresh of the HRA Business Plan later in the year which will seek to address the pressures and funding for the 30 year business plan.

#### 4.17 Usable reserves – Housing Revenue Account

4.17.1 The total value of allocated reserves available for the HRA to spend at 31 March 2022 is £3.5Million consisting of two reserves.

4.17.2 The reserve balances remaining at 31 March 2022 may seem a significant sum but are held for specific purposes, some of which are set out below.

- Interest Equalisation Reserve this was set up to allow the HRA to absorb interest rate increase in the short term and maybe utilised in 2022/23 once the impact of higher interest rates on HRA loans is calculated.
- £165K of transformation costs not spent in 2021/22 and transferred to a reserve to support the programme.

<b>Reserves £'000</b>	<b>Opening 2021/22</b>	<b>Use</b>	<b>Closing 2021/22</b>	<b>Use</b>	<b>Closing 2022/23</b>
Interest equalisation reserve	(£3,423)	£0	(£3,423)	£0	(£3,423)
Transformation Reserve	£0	(£165)	(£165)	£0	(£165)
<b>Total Allocated Reserves</b>	<b>(£3,423)</b>	<b>(£165)</b>	<b>(£3,588)</b>	<b>£0</b>	<b>(£3,588)</b>

#### 4.18 Investments and Loans

4.18.1 Council's actual investments as at year end were £68.75Million, £2.65Million lower than the forecast £71.4Million. The Council's investment portfolio is detailed in appendix A.

4.18.2 The cash balances held by the Council relate to the provisions held (including those held for the collection funds), capital receipts (for which some have restrictions over their use and may have to be returned), and timing issues between when the council receives the money and when it is to be paid out.

4.18.3 As at the 31 March 2022 the Council had loans of £227.75Million. All loans are with the Public Works Loan Board (PWLB), with £263K of General Fund borrowing repaid in year. The Council has identified the need for borrowing of £11.866Million to fund the 2021/22 General Fund capital programme and £24.997Million to fund the 2021/22 HRA capital programme. £9.047Million of HRA borrowing was taken out externally during 2021/22; the balance is currently covered by internal borrowing.

4.18.4 The majority of the Council's debt relates to the HRA and predominately due to the HRA self-financing settlement, which required the Council to pay the Treasury £199Million in 2012.

### 5. IMPLICATIONS

#### 5.1 Financial Implications

5.1.1 This report is financial in nature and consequently financial implications are included above.

## **5.2 Legal Implications**

5.2.1 None identified at this time.

## **5.3 Risk Implications**

5.3.1 Although the Council achieved a surplus in 2021/22, there are still many uncertainties facing the Council in the coming years, from delayed local government funding reform, to cost of living crisis and potential further impacts of COVID. The surplus in 2021/22 will improve the financial resilience of the General Fund during this period of increased financial risk. The Council has a Strategy in place to address the financial impacts due to the likely level of funding and the increased uncertainty that income levels are going to be challenging to achieve for some time to come. The Quarter 1 Monitoring report to September Executive will cover this in more detail.

5.3.2 Current HRA balances are higher than the minimum level of balances required, set out in the 2022/23 budget at £3,320,000. However, balances will be needed to repay HRA loans in the medium to long term, mainly related to the self-financing settlement made in 2012. The fund also faces the challenge of high inflation, potentially higher salary increases and difficulty in collecting rent due to the current economic climate. Higher balances can help to mitigate these risks in the short term, but this would have to be reflected in the medium to long term planning for the HRA when the business plan is reviewed.

## **5.4 Climate Change Implications**

5.4.1 The General Fund budget contains budgets to support delivery against the Council's climate change ambitions and new growth bid was include for 2022/23.

## **5.5 Policy Implications**

5.5.1 The budget framework represents a development of a policy led budgeting approach across Council services and the overall Medium Term Financial Strategy.

## **5.6 Equalities and Diversity Implications**

5.6.1 This report is of a technical nature reflecting the actual spend for the year for the General Fund and HRA. The identified ongoing budget changes reported have arisen through efficiencies and do not change any existing equalities and diversity policies, nor will they impact on any groups covered by statutory equalities duties.

## **BACKGROUND DOCUMENTS**

- BD1 - 3rd Quarterly monitoring report General Fund and Housing Revenue Account
- BD2 – 2021/22 Council Tax and General Fund Budget
- BD3 – 2021/22 Final HRA Budget